C. P. U. No. 411

COMMITTEE ON PUBLIC UNDERTAKINGS (1980-81)

(SEVENTH LOK SABHA)

FOURTH REPORT

Action taken by Government on the recommendations contained in the Fifty-Fourth Report of the Committee on Public Undertakings (Sixth Lok Sabha).

ON

ANDAMAN AND NICOBAR ISLANDS FOREST AND PLANTATION DEVELOPMENT CORPORATION LTD. (MINISTRY OF AGRICULTURE, DEPARTMENT OF AGRICULTURE & COOPERATION)

Presented to Lok Sabha and
Laid in Rajya Sabha on

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(SEVENTH LOK SABHA)

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(1980-81)

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*Elected w.e.f. 28-11-1980 in the vacancy caused by appointment of Shri P. A. Sangma as Deputy Minister.

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(1980-81)

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7. Shri B. K. Nair

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to submit the Report on their behalf, present this 4th Report on Action Taken by Government on the recommendations contained in the 54th Report of the Committee on Public Undertakings (Sixth Lok Sabha) on Andaman and Nicobar Islands Forest and Plantation Development Corporation Limited. (Ministry of Agriculture, Department of Agriculture & Co-operation).

2. The 54th Report of the Committee on Public Undertakings was presented to Lok Sabha on 30 April, 1979. Replies of Government to all the recommendations contained in the Report were received on 20 August, 1980. The Replies of Government were considered by the Action Taken Sub-Committee of the Committee on Public Undertakings on 12 December, 1980. The Report was finally adopted by the Committee on Public Undertakings on 16 December, 1980.

3. An analysis of the Action Taken by Government on the recommendations contained in the 54th Report of the Committee is given in Appendix III.

NEW DELHI;
17 *December*, 1980.
26, *Agrahayana*, 1902 (*Saka*).

BANSI LAL,
Chairman,
Committee on Public Undertakings.

CHAPTER—I

REPORT

The Report of the Committee deals with the action taken by Government on the recommendations contained in the Fifty Fourth Report (Sixth Lok Sabha) of the Committee on Public Undertakings on Andaman and Nicobar Islands Forest and Plantation Development Corporation Ltd. which was presented to Lok Sabha on 30 April, 1979.

2. Action Taken notes have been received from Government in respect of all the 7 recommendations contained in the Report. These have been categorised as follows:—

(i) Recommendations|Observations that have been accepted by Government:

Serial Nos. 1, 3, 5 and 6.

(ii) Recommendations|Observations which the Committee do not desire to pursue in view of Government's replies:

Serial No. 7.

(iii) Recommendations|Observations in respect of which Government's replies have not been accepted by the Committee:

Serial Nos. 2 and 4.

3. The Committee will now deal with the action taken by Government on some of the recommendations.

A. Marketing of Timber

Recommendation at Serial No. 2 (Paragraph 40)

4. The Committee were not convinced that price obtained by the Corporation was the best price. They, therefore, recommended that the price should in future be related to that ruling in the market. Further details of rates obtained, contracts entered into, should be clearly reflected in the annual report of the Corporation.

5. In their reply the Ministry has stated that the rates for sale of timber were fixed by the Corporation in view of the ruling prices

as obtained in the mainland depots of the Andaman Forest Department located at Howrah and Madras after conducting market intelligence study. It has also been stated that while the information about the rates and contracts entered into could be supplied to the Parliamentary Committee, the Committee may like to consider whether it is necessary to include in the Annual Report, the details of contracts entered into and the rates obtained by sale of timber. This is not generally done in the Annual Report on Government Companies. Any significant change in the pricing policy will no doubt, be brought out in the Annual Report.

6. The Committee are unable to fully agree with the views of the Ministry, though they appreciate that it may not be possible to include in the Annual Reports all the details of contracts entered into and the rates obtained for each sale. In the case of Government Companies disclosure of information is not strictly restricted to what is required under the law. In the context of their accountability it should be dictated by the requirement as expressed by the Committee on Public Undertakings. The Committee accordingly desire that in order to enable Parliament and the Public to make a comparative assessment of the prices obtained from year to year, at least the range of prices realised by the Corporation for various species of timber, should be shown in the Annual Reports of the Corporation, in addition to explaining significant changes in Pricing Policy.

B. Joint Sector Venture—Establishment of large scale wood based complex.

Recommendation at Serial No. 4 (Paragraphs 42—44)

7. The Committee were perturbed to note that despite serious objections raised by the Bureau of Public Enterprises against the proposal to set up a plywood factory in the Joint Sector, the Corporation hustled through a 'shady' deal which will mean a considerable loss to the Corporation and signed an agreement with a Consortium of, Western India Plywood Ltd. and the India Plywood Ltd. The Bureau had pointed out that (i) the proposal would need prior approval of the Cabinet (ii) it is not fair to have a firm sale price for as many as five years for supplying timber to the Joint Sector Company and (iii) if the Corporation were to have only 26 per cent participation in the equity capital it will neither be a Government Company nor a Section 619B Company and consequently it will be free from any Parliamentary Control. The Committee condemned the action of the Corporation in reducing the share capital of joint Sector Company from Rs. 2 crores to Rs. 1.80 crores to circumvent the need for cabinet's approval.

8. The Committee were also alarmed to know from Deputy Adviser, BPE (Shri Roy Chaudhary) that the two gentlemen from Western India Plywood (one of the collaborators) who met him wanted the waiving of the condition of cabinet approval for the joint sector venture. The Committee recommended that the Central Government should have a thorough probe made by the Central Vigilance Commission, because as far as the Committee can see the selling price of timber and other terms and conditions stipulated in the agreement are very much against the interest of the Corporation and the country.

9. In their reply, the Ministry have *inter alia* mention the following points:

(i) Cabinet approval is undoubtedly required for all cases of participation by a Government Company in the shares of a new company irrespective of the financial investment. It would not, therefore, be correct to say that the reduction in the share capital of the proposed joint sector company was made to circumvent the need for cabinet approval.

(ii) The pattern of share holding of the joint sector company was decided in consultation with the Ministry of Industry.

(iii) The collaborators were chosen after inviting tenders.

(iv) Rates were found to be reasonable.

(v) The price freeze for a period of five years was allowed after taking into consideration the constraints from which the industry will suffer in the islands.

(vi) The agreement was entered into as a safeguard before putting up the proposal for approval of the Cabinet so that the Consortium remained bound down to the settled terms of reference, and

(vii) Considering all the aspects, Government do not feel that any malafide is involved in this case warranting any enquiry by the Vigilance Commission.

10. The Ministry has further stated that the question whether a joint sector company should be set up with the participation in the equity by Andaman and Nicobar Islands Forest and Plantation Development Corporation Ltd. is under consideration of the Ministry and will be decided by Government with the approval of competent authorities.

11. The Committee are not satisfied with the reply furnished by the Ministry. As mentioned in the 54th Report, the Corporation sent a proposal of the joint venture to the BPE on 19 October, 1978 along with a draft agreement. The Bureau examined the proposal and pointed out that out of the authorised capital of Rs. 2 crores of the proposed joint sector company, the investment of the corporation would be Rs. 52 lakhs and that the proposal would require cabinet approval. Instead of taking steps to obtain cabinet approval, the Corporation informed BPE *vide* their letter dated 13 November, 1978 that the share capital of Joint Sector Company having been reduced to Rs. 1.80 crores, its share would be Rs. 46.80 lakhs and wanted to know whether cabinet approval would still be required for this investment. Presumably it was felt by the Corporation that the cabinet approval was required only when investment exceeded Rs. 50 lakhs and the collaborators desired a scaling down of the authorised capital. It is also significant to note that two employees of the collaborators met the Deputy Adviser BPE, after the Bureau had sent their comments in regard to the approval of the Cabinet needed. *Prima facie* there appeared to have been some vested interest in trying to avoid cabinet scrutiny of the proposal. These were the facts that led the Committee to suggest a thorough probe by the Central Vigilance Commission. The Committee are therefore constrained to reiterate that the Government should have a thorough probe made by the C.V.C. as only an independent probe could bring out whether there was any malafide intention on the part of the collaborator(s) in trying to have the agreement hustled through without cabinet approval.

12. As regards price for the raw material, the basis on which it was fixed is not clear. In any case it was fixed sometime in 1978 and it will take quite some time before the proposed Joint Sector Company commences operation, in case the proposal is cleared by the cabinet. The Committee do not therefore consider fixation of price far in advance in a rising market without any escalation clause, to be commercially wise. Further from the point of view of securing the accountability of the Joint Sector Company, the Committee strongly endorse the views of the BPE that such a company should either be a subsidiary of the Andaman and Nicobar Islands Forest Plantation Development Corporation or at least a company coming within the purview of Section 619 B of the Companies Act, 1956. The Committee trust that the administrative ministry and the cabinet will consider these points as well as those mentioned in the foregoing paragraph before taking a decision on the proposed Joint Sector Company with the Copromoters already selected by the Corporation.

CHAPTER II

Recommendations that have been accepted by Government

Recommendation Serial No. 1

The Committee are distressed to note that the entire turnover of timber by the Forest and Plantation Corporation is in the form of logs only. During 1977-78 and 1978-79 (upto December, 1978), the Corporation produced 16,962 and 12,681 cubic metres of timber. It is not known to the Committee as to how much of these were taken over from the Forest Department. Though Railways had indicated to the Corporation that they wanted to purchase sleepers for railway tracks, the Corporation could not meet this requirement. It is, indeed surprising, it does not have sawing facilities of its own. The saw mill at Chatham is also stated to be working in only two shifts and is, therefore, not in a position to meet sawing requirements of the Islands in full. There has been no effort to create and increase sawing capacity in the Islands, in the public sector. The result is that while the Corporation has all the raw material (timber in logs) in its hands, it is the private concerns operating in the islands who buy the raw material at low rates and make enormous profits on sale after sawing and processing of timber thereby depriving the Corporation in collusion with persons in authority of its rightful share.

The Committee strongly recommend that in future the Corporation must export only sawn timber and timber products. Export of logs should be stopped as soon as possible. By doing so, the Corporation will not only be able to generate employment, but would be able to earn profits which otherwise are being mopped up by private concerns.

(Paragraphs 38-39)

Reply of Government

Under paragraph 9 of the Fifty Fourth Report of the Committee on Public Undertakings of the Lok Sabha, it has been indicated that 2300 m^3 of timber was taken over by the Andaman Forest Corporation from the Andaman Forest Department during 1977-78. The extraction of timber made in 1977-78 was 16962 m^3 which exceeded the target of 15,000 m^3. In the following year, the extraction made was 12681 m^3 upto December, 1978. This was partly due to delay in receipt of wheeled skidder, the receipt of which was expected in April, 1978.

It was envisaged in the Project Report that at the initial stage the Forest Corporation will have a modest beginning by taking over the activities of the Forest Department in Little Andaman, the activities being gradually expanded with the establishment of wood based industries. While it is accepted that the sale of processed timber as against round logs adds to the value of the product, this can be done only after the establishment of requisite sawing and processing facilities. Such infrastructure was not contemplated at the beginning of the operations of the Corporation and, therefore, the Corporation could produce timber in log form only in the beginning. It is for this reason that the Corporation could not undertake supply of sleepers to the Department of Railways.

Although the Chatham Saw Mill is not under the control of the Corporation, it is understood from the Chief Conservator of Forests, Andaman that on account of shortage of power during peak load hours and on account of old and worn out machinery in use, it has not been possible to run the Mill for more than 2 shifts. Still the Forest Department is exporting 40 per cent of its total sawn timber to the Mainland for disposal after meeting local requirements of the Island. The question of creating additional timber sawing and processing infrastructure in the Islands is, however, separately under consideration as a joint venture of the Forest Corporation.

Since the Forest Corporation had not yet developed its own timber sawing and processing infrastructures, the production and subsequent disposal of timber was done only in log form. Uptill December, 1978, therefore, the Corporation had sold 3960 m^3 of matchwood to M/s Western India Match Company, 406 m^3 of ply logs to M/s Andaman Timber Industries and 102 m^3 of saw logs to M/s Asian Timber Products' besides the timber sold to local Government Departments and public undertakings. These industries got the timber from the Corporation for their own consumption in their factories.

During the first year of its working, the Corporation had fixed the sale rates of timber after doing a study of market intelligence. This was necessary because the Corporation could not adopt the f.o.b. rates fixed by the Andaman Forest Department. While timber of Andaman Forest Department was loaded from developed ports with requisite loading and shipping infrastructures involving shorter oceanic lead; the timber produced by the Corporation was to be loaded from Hut Bay which lacked in requisite loading and shipping infrastructures and involved longer oceanic lead. Even than, the f.o.b. rates fixed by the Corporation during the year 1977-78 and in the following years compared well with those of the Andaman Forest

Department. The Corporation fixed the rates initially after inviting offers from the Mainland and subsequently the rates were revised in the year 1978-79 such that the rates were based on the weighted average rates obtained by the auction sale of timber in Mainland depots of Andaman Forest Department located at Howrah and Madras. Thus f.o.b. rates fixed by the Corporation reflected the trend of ruling prices obtained in the Mainland markets. While Assam Forest Department sold ply logs in the year 1977-78 to the industries at the rate of Rs. 379.63 per cubic metre with delivery at Mill Yard, the Andaman Corporation was selling Gurjan Grade A and Grade B timber at f.o.b. rates of Rs. 385 and Rs. 350 per cubic metre respectively which shows linkage between the ruling prices available in the Mainland *vis-a-vis* the f.o.b. rates fixed by the Corporation. Referring to the financial performance of this Corporation, it is noticed that the Corporation had made a humble profit of Rs. 19.27 lakhs before tax during the year 1977-78.

The Corporation had been disposing of its timber to buyers from the Mainland besides the local industries and the local Government departments as well as public undertakings. It has not been found that the Corporation was selling timber merely to private concerns operating in the Islands and that there was a collusion with the persons in authority resulting in possibilities of loss of rightful share in the sale of timber to the Corporation.

Government accepts in principle, the recommendations of the Committee that as soon as the requisite infrastructural facilities are established, the Corporation should export sawn timber and timber products reducing the export of timber in the form of logs to the minimum.

[Ministry of Agriculture O.M. No. 3-48/80-F. II dated 20-8-1980]

Recommendation Serial No. 3

The Committee find that though one of the objectives of the Forest and Plantation Development Corporation is regeneration of forests, it has done very little in this direction. In fact, it has spent a paltry sum of Rs. 11069/- during 1977-78 for this purpose. The Committee cannot over emphasise the need for regeneration of Forests and trust that the Corporation will give this task the priority it deserves. They should quickly cover plantation of wide area expeditiously and continuously as there is no evidence of it at present.

(Paragraph 41)

Reply of Government

During the year 1977-78, the Andaman Forest Corporation had harvested timber in over 245 hac. area, of which the area of 205 hac. was made over for rehabilitation and other programmes. Consequently, harvested area of 40 hac. only was left for re-stocking. The Corporation spent a sum of Rs. 11069 in 1977-78 for the regeneration of this 40 hac. of harvested area, as no regeneration operations were required to be contemplated in area set apart for rehabilitation programmes.

Government accept the recommendation of the Committee regarding the need for regeneration of worked forest areas and assures the Committee that this will receive all priorities.

[Ministry of Agriculture O.M. No. 3-48/80-F. II dated 20-8-1980]

Recommendation Serial No. 5

It transpired during evidence of the Director of Industries Andaman and Nicobar Islands that some Small Industries were not getting adequate timber from the Corporation at a reasonable price. The Committee would like the Corporation to meet the requirements of local industries as well as housing requirements in full. The Corporation should initiate action to constitute an Industrial Board fully involving the Department of Industries, Andaman and Nicobar Islands for development of wood based industry. Surely, the natural wealth of Andaman and Nicobar Islands is not exclusively meant for fattening a handful of wealthy businessmen who are operating in Andaman and Nicobar Islands.

(Paragraph 45)

Reply of Government

The Director of Industries, Andaman or any other local small industries did not ask the Andaman Forest Corporation for supply of timber and, therefore, no timber supply was made to local wood based small industries by the Corporation during 1977-78 and 1978-79. Government, however, accept the recommendations of the Committee that the Corporation should meet timber requirements of local small wood based industries as well as the local housing requirements in full. Constitution of Industrial Board is generally a subject matter of the Industries Department as the development of industries in the Islands is the responsibility of the Department of Industries. As

such, the Committee may like to reconsider whether the Industrial Board should be constituted by the Forest Corporation or by the Director of Industries.

[Ministry of Agriculture O.M. No. 3-48/80-F. II dated 20-8-80]

Recommendation Serial No. 6

The Committee learnt during evidence that except Port Blair where the Channel is marked, other ports viz. Port Meadow, Elphistone, Hut Bay, Mayabunder and Carnwallis lacked navigational facilities with the result that ships lose one day on each side because of low speed. The learned Committee recommend that the Ministry of Shipping and Transport should provide navigational facilities at these Ports. At present Shipping Corporation have pressed into Service timber Carriers 'Diglipur' and 'Shompen'. The capacity of there vessels is about 69,000 Cubic metres per trip for both the vessels.

The Vice Chairman and Managing Director of the Shipping Corporation of India pointed out that if the Forest and Plantation Development Corporation could saw the timber and ship it in pellets, it would be possible for the timber carriers to carry much more cargo. The Committee accordingly recommend that the Corporation should ship timber only after sawing and preferably after pelletisation to ensure optimum utilisation of shipping capacity.

(Paragraph 46)

Reply of Government

Recommendation relating to the provision to be made for navigational facilities at Port Meadow, Elphinstone, Hut Bay, Maya Bunder and Carniwallis are the subject matter of the Ministry of Shipping and Transport. The shipping capacity of timber carriers Shompen and Diglipur is 6,900 m^3 per trip and not 69,000 m^3 as recorded under this recommendation.

The Government accept the recommendation of the Committee that the Andaman Forest Corporation should ship the timber after sawing and processing. However, this could be done after requisite infrastructures for sawing and processing of timber have been set up as explain earlier under recommendation No. 1.

[Ministry of Agriculture O.M. No. 3-48/80-F. II dated 20-8-1980]

CHAPTER III

RECOMMENDATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF GOVERNMENT REPLIES

Recommendation Serial No. 7

The Committee find that the Forest Department has a retail Sale Depot at Calcutta and Madras but the Forest and Plantation Development Corporation has not set up any retail sale depots in mainland so far. However, on 26th February, 1979 the Corporation requested the Government of West Bengal to allot a plot of land to set up a retail sales depot in Calcutta.

The Corporation must first cater to the needs of Government and industrial requirements of Andaman and Nicobar group of Islands, secondly, it must meet the requirements of Central and State Government and Public Undertakings and other allied organisations in the mainland; thirdly, it should immediately proceed to open retail sale depots at the State Capitals for small consumers for their requirements at Madras, Calcutta and other places.

(Paragraphs—47-48)

Reply of Government

The Andaman Forest Development Corporation had addressed the Government of West Bengal through their communication dated 26-2-79 for allotment of a plot of land for setting up a retail sale depot in Calcutta. The Corporation had done so to supplement the sale of timber by the Andaman Forest Department in Howrah Depot as the Corporation was obliged to dispose of its timber in log form in the initial satge as the requisite sawing and processing facilities were not envisaged to be created in the early phase of the Project. However the proposal had to be given up as it did not materialise.

The Government accept the recommendation of the Committee that primarily the Corporation must meet needs of the Government and industrial requirements of Andaman and Nicobar group of Islands and secondly the requirements of the Central and State Government and public undertakings and other allied organizations

in the Mainland. Opening of retail sale depots in Madras and Calcutta could only be considered during the early phase of the Project when timber in log from was being disposed of. However, this would not be possible as a long term measure because the Corporation envisages to develop its own sawing and processing infrastructure for converting most of the timber into sawn and other finished products facilitating industrial development of the Islands and easy shipping of the products to the Mainland.

[Ministry of Agriculture O.M. No. 3—48/80-F. II, dated 20-8-80]

CHAPTER IV

RECOMMENDATIONS IN RESPECT OF WHICH REPLIES OF GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

Recommendation Serial No. 2

The Committee stress that there should be no duplication of efforts between the Forest Department and the Corporation specially in the same area of operation. There should be a co-ordinated approach to marketing of products in the mainland. The Committee are not convinced that price obtained for timber was the best price. The price should in future be related to that ruling in the main market. This should be scrupulously earned and existing arrangements reviewed in this light. Details of rates obtained, contracts entered into should be clearly reflected in the Annual Report of the Corporation.

(Paragraph—40)

Reply of Government

The two organizations namely the Andaman Forest Department and the Andaman and Nicobar Islands Forest and Plantation Development Corporation are at present working in absolutely independent areas of operation, avoiding duplication in their activities in the same area. Forest areas of Little Andaman and North Andaman have been indentified for working by the Forest Corporation. These forests have hitherto not been regularly harvested by the Andaman Forest Department. Only localised felling operations were so far conducted by Andaman Forest Department in these Islands for making available clear felled areas for the rehabilitation programmes. The Forest Department has since completely withdrawn from Little Andaman in favour of the Forest Corporation. There has also been complete coordination between the two organizations in matters relating to marketing of their products in the Mainland and in the fixation of f.o.b. rates. Government, however, accepts in principle the recommendations of the Committee that there should be no duplication in the efforts of the Andaman Forest Department and the Forest Corporation in the same areas of operation in future also and that the two organizations adopt co-ordinated approach to the marketing of their products in the Mainland.

As has already been stated under recommendation at S. No. 1, relating to paragraphs 38 and 39 of the Fifty Fourth Report of the Committee on Public Undertakings of the Lok Sabha, the rates for sale of timber were fixed by the Corporation after conducting study on market intelligence and then in view of the ruling prices as obtained in the Mainland depots of the Andaman Forest Department located at Howrah and Madras. These rates were also competetive with the sale rates of ply logs which Assam Forest Department was supplying to the industries.

While the information about the rates and contracts entered into could be supplied to the Parliamentary Committees, the Committee may like to consider whether it is necessary to include in the Annual Report, the details of contracts entered into and the rates obtained by sale of timber. This is not generally done in the Annual Report on Government Companies. Any significant change in the pricing policy will no doubt be brought out in the Annual Report.

[Ministry of Agriculture O.M. No. 3-48/80-F. II dated 20-8-1980]

Comments of the Committee

(Please *see* Paragraph 6 of Chapter I of the Report)

Recommendation Serial No. 4

The Committee are perturbed to note that despite serious objections raised by the Bureau of Public Enterprises against the proposal to set up a plywood factory in the joint sector, the Forest and Plantation Development Corporation hustled through a shady deal which will mean a considerable loss to the Corporation and signed on 9 November, 1978 an Agreement with South Indian Plywood Manufacturers Association which includes Western India Plywood Company. The Bureau had pointed out that (i) the proposal would need prior approval of the Cabinet (ii) it is not fair to have a firm sale price for as many as 5 years for supplying timber to the joint sector company, and (iii) if the Forest and Plantation Corporation were to have only 26 per cent participation in the equity capital with 25 per cent to joint sector co-promoters and 49 per cent to Public and financial institutions, it will not be a Government company and consequently it will be free from any Parliamentary control. The Committee condemn the action of the Corporation in reducing the share capital of Joint Sector Company from Rs. 20 crores to Rs. 1.80 crores to circumvent the need for Cabinet's appro

val. The Committee recommend that the Agreement brought about by back-stage manoeuvring should be terminated forthwith. The Committee were alarmed to hear Deputy Adviser, Bureau of Public Enterprises (Shri Roy Chaudhury) who stated: "two gentlemen met me..... I do not recollect the names of the two gentlemen but I recollect that they represent the Western India Plywood. As far as I could recollect, they were ex-Military people, one was perhaps a Brigadier and another some Colonel. They told me. you have put this condition that prior Cabinet approval will be necessary before setting up this joint sector corporation. Can't you waive this condition? I said 'why do you want this condition to be waived' They said, it will only take time. Otherwise we have advanced greatly to execute an agreement." It is evidently a conspiracy hatched between the top brass of the Plantation Corporation and private sector companies. The Committee cannot resist the impression that by not creating sawing facilities and going ahead with its proposal to set up a plywood factory in the joint sector, the Corporation had played into the hands of vested interest. Undoubtedly with a mere 25 per cent of the equity participation the Private concerns will be the biggest beneficiaries. Incidentally the Committee have been informed that the SIPMA has also entered into an agreement with the Corporation for supply of wood to mainland. They are of the view that it is an unchecked plunder without parallel.

This shows that a lobby was very active and the whole deal shows how corrupt and interested the concerned officials were. The Committee are also surprised that this should have happened when the Chairman of the Corporation is the Chief Commissioner of the Andaman and Nicobar Islands and the Managing Director is the Chief Conservator of Forests, Andaman and Nicobar Islands. They would require that the Central Government should have a thorough probe made by the Central Vigilance Commission because as far as the Committee can see the selling price of timber and other terms and conditions stipulated in the agreement are very much against the interests of the Corporation and the country. Penal action should be taken against all those who are found guilty, howsoever, highly placed they may be.

The Committee recommend that the Corporation itself should establish large scale wood based complexes consisting of saw-mills, Plywood and fibreboard units.

The Corporation should also encourage the Cottage and Small Scale Industries and take up a programme of exporting other wood made items in knock down condition to the mainland to generate

employment of the local inhabitants and accelerate the pace of industrialisation of the islands.

(Paragraph 42—44)

Reply of Government

The Andaman Forest Corporation did not sign any agreement on the 9th of November, 1978 with South Indian Plywood Manufacturers' Association. However, the Corporation entered into an Agreement on the 9th of November, 1978 with the Consortium relating to the proposed joint sector industrial complex. Western India Plywood Company is one of the two companies which represented the Consortium.

While the Corporation was formed on 21-1--77, the Ministry of Agriculture and Irrigation (Department of Agriculture) in the Government of India, in consultation with the Ministry of Industry, was already seized with the idea of developing wood based industries in the Islands. Modalities etc. in the form of a joint sector company had been discussed by the administrative Ministry with the Ministry of Industry and various proposals received from private enterpreneurs in the Government of India were forwarded by the Ministry of Industry for processing. The Ministry of Agriculture (Department of Agriculture) then addressed letter No. 2-88/73-F. II (Part I) dated 11-1-77 (Appendix—I) to the Chief Commissioner of Andamans conveying, in consultation with the Ministry of Industry, the pattern of equity participation as under:—

(i) Government share—26 per cent.

(ii) Co-promoters (Private companies)—25 per cent.

(iii) Financial institutions/Public/Banks—49 per cent.

The Ministry of Agriculture in this letter, also drawn attention of the Chief Commissioner to the fact that since there was no State Industrial Development Corporation in Andaman and Nicobar Islands and since the Memorandum and Articles of Association of the Corporation provided for such activities, it was felt that the said Corporation might take up the role of promoters and hold 26 per cent share on behalf of the Government. This arrangement was also in consonance with the recommendation of the National Commission on Agriculture. Ultimately, views of the Chief Commissioner were also invited on this major policy decision referring to the industrial development in the union territory *vide* Wireless Message dated 21-3-77 (Appendix—II), the Chief Commissioner endorsed the proposal of the Ministry of Agriculture to entrust

the Andaman and Nicobar Islands Forest and Plantation Development Corporation Ltd. with the role of promoters in favour of joint sector Company for the establishment of wood based industries in the Andaman and Nicobar Islands.

In view of this development, the Corporation published notices in the leading dailies of the Mainland in April, 1977 and July, 1977 inviting offers from intending entrepreneurs proposals to set up industry in the two project areas viz. Little Andaman and North Andaman. The proposals received were put up before the Board of Directors in their meetings of 23rd/24th June, 1977 and 1st February, 1978. It was after full consideration by the Board that a decision was taken to pick up the most suitable entrepreneur from amongst the applicants. There were in all 9 offers from 7 parties, of which two offers were from Monopoly Houses who were not willing to participate in joint sector venture. A choice was left to be made from 5 entrepreneurs. The selection of entrepreneurs was based on experience in the specific field, resourcefulness, viability of the project, prices offered for the timber, quality of the complex proposed etc. Keeping in view these guidelines, the Board had selected the Consortium comprising of M/s. Indian Plywood Manufacturing Company and M/s. Western India Plywood Limited as co-promoters for the proposed joint sector company. The Board did not accept that the same co-promoter should be allowed to enter into a joint sector venture for both the projects, as that might amount to monoply, and consequently the selected co-promoters were offered to consider whether they could join the joint sector venture only for Little Andaman Project. The Consortium agreed to the proposal.

The Consortium had offered their rates for the supply of raw material which were also revised upward by the Board of Directors in their meeting dated the 15th and 17th July, 1978, to which the Consortium agreed after lot of hesitation. The comparison of the rates offered and rates finally approved and agreed to by the Consortium are given below:

Rates offered by the Co-promoters		Rates approved	
1. Ply-logs	Rs. 240/-	(a) Gurjan Gr. I	Rs. 330/-
		(b) Gurjan Gr. II	Rs. 265/-
		(c) Other ply species.	Rs. 200/-
2. Saw logs	Rs. 200/-		Rs. 200/-
3. Wood Waste	Rs. 80/-		Rs. 80/-

(1) The factual inaccuracy in the Report of the Committee on Public Undertakings that an agreement was signed on 9th November, 1978 with South Indian Plywood Manufacturers Association may please be corrected.

(2) Cabinet approval is undoubtedly required for all cases of participation by a Government Company in the shares of a new company irrespective of the financial investment. It would not, therefore, be correct to say that the reduction in the share capital of the proposed joint sector company was made to circumvent the need for Cabinet approval.

(3) The pattern of share holding of the joint sector company was decided in consultation with the Ministry of Industry.

(4) The collaborators were chosen after inviting tenders.

(5) Rates were found to be reasonable.

(6) The price freeze for a period of 5 years was allowed after taking into consideration the constraints from which the industry will suffer in the islands.

(7) The agreement was entered into as a safeguard before putting up the proposal for approval of the Cabinet so that the Consortium remained bound down to the settled terms of reference, and

(8) Considering all these aspects, Government do not feel that any malafide is involved in this case warranting any enquiry by the Vigilance Commission.

The question whether a joint sector company should be set up with the participation in the equity by Andaman and Nicobar Islands Forest and Plantation Development Corporaion Ltd. is under consideration of the Ministry and will be decided by Government with the approval of competent authorities.

[Ministry of Agriculture O.M. No. 3-48/80F, II dated 20-8-1980]

Comments of the Committee

(Please see Paragraphs 11 & 12 of Chapter I of the Report)

CHAPTER V

RECOMMENDATIONS IN RESPECT OF WHICH FINAL REPLIES OF GOVERNMENT ARE STILL AWAITED

NIL

NEW DELHI;
17 *December*, 1980
26 *Agrahayana* 1902 (*Saka*)

BANSI LAL
Chairman.
Committee on Public Undertakings.

APPENDIX I

Copy of the Ministry of Agriculture's letter No.2-88/73-F.II(Pt.I) dated the 11th January, 1977 addressed to the Chief Commissioner, Andaman and Nicobar Adm. Port Blair.

SUB:—Formation of Joint Sector Company for the Establishment of Wood Based Industries in the Project areas of Proposed Andaman and Nicobar Islands Forest and Plantation Development Corporation Ltd.

I am directed to say that all the preliminary details about the formation of Andaman and Nicobar Islands Forest & Plantation Corporation Ltd. have been attended to and it is expected that the said Corporation will be inaugurated by the Second week of January, 1977 and will start functioning immediately thereafter. It has been intended to establish large scale wood based complex consisting of Plywood Mill, Saw Mill and Fibre board units under the Joint Sector and various requests from private entrepreneurs were forwarded to the Ministry of Industries for processing. In the meantime, informal discussion on the modality etc. on the formation of a Joint Sector Company were held with the Ministry of Industry has any agency to participate in the Ministry of Industry. It was also ascertained whether the proposed Joint Sector venture. In the States, the State Industrial Development Corporation play the role of promotion for such joint sector ventures and the pattern of equity participation for such ventures has been laid down as follows:

(i) Government share--26 per cent

(ii) Co-promoter (Private Companies)—25 per cent

(iii) Financial Institutions of Bank of Public—49 per cent

No single member of the public is allowed to obtain shares for more than 25 per cent.

As there is no State Industrial Development Corporation in Andaman and Nicobar Islands and the memorandum and articles of Association of the Andaman and Nicobar Islands Forest & Plantation Development Corporation provides for such activities it is felt that the said Corporation may take up the role of promoter and hold 26 per cent of the share on behalf of the Government. This is also in consonance with the recommendation of the National Commission on Agriculture.

This will be a major policy decision in the field of Industrial development of the Union Territory of Andaman and Nicobar Islands and as such you are requested to forward your views in the matter.

Copy to Additional Secretary, Ministry of Home Affairs, New Delhi.

Copy also to the Chief Conservator of Forests, Andaman and Nicobar Islands, Forest Department, Port Blair, with reference to his letter No. FDG/41/75-76, dated 27th November, 1976.

APPENDIX II

Copy of wireless message No. FDC/41/75-76-I, dated 21-3-1977 from Chief Commissioner Andaman and Nicobar Administration, Port Blair addressed to the Ministry of Agriculture, New Delhi.

AGRINDIA NEW DELHI

ANDAMANS PORT BLAIR

FDC/41/75-76-I 21-3-1977 U/C

REFER MINISTRY'S LETTER NO. 2-88/73-F. II (PT. I) OF ELEVENTH JANUARY (.) ADMINISTRATION ENDORSES THE PROPOSAL OF ENTRUSTING ANDAMAN AND NICOBAR ISLANDS FOREST AND PLANTATION DEVELOPMENT CORPORATION LTD THE ROLE OF PROMOTER IN FORMATION OF JOINT SECTOR COMPANY FOR ESTABLISHMENT OF WOOD BASED INDUSTRIES IN THE ENTIRE TERRITORY RATHER THAN RESTRICTING THEM TO PROJECT AREA ONLY

APPENDIX III

(*Vide* Para 3 of Introduction)

Analysis of action taken by Government on the recommendations contained in the Fifty-Fourth Report of the Committee on Public Undertakings (Sixth Lok Sabha).

I.	Total number of recommendations made	7
II.	Recommendations that have been accepted by Government (*Vide* recommendations at S. Nos. 1, 3, 5 & 6)	4
	Percentage to total	57·1%
III.	Recommendations which the Committee do not desire to pursue in view of Government's reply (*Vide* recommendation at S. No. 7) .	1
	Percentage to total	14·3%
IV.	Recommendations in respect of which replies of Government have not been accepted by the Committee (*Vide* recommendations at S. Nos. 2 & 4)	2
	Percentage to total	28·6%
V.	Recommendations in respect of which final replies of Government are still awaited	NIL
	Percentage to total . .	NIL